BOOK REVIEWS AND NOTICES

Latter Day Problems. By J. LAURENCE LAUGHLIN. New York: Scribner, 1909. 8vo, pp. 302. $1.50 net.

This volume contains ten essays on subjects of current discussion. Let us glance first at the chapter on "The Valuation of Railways." The purpose of valuation is presumably to obtain a basis for taxation, or for the regulation of railway charges, or for the issuance of stocks, bonds, and other securities. If the thing is to be done, what shall be the basis of valuation? Shall it be the actual cost of the railway in its past development, or the cost of reproducing it at the present time, or the current market value of its securities? If the object of valuation is taxation, the last-mentioned basis is the most equitable, as well as the speediest and cheapest. Taxation should be proportionate to earning power; the selling value of the securities is the measure of the earning power, and the selling value can be obtained from the quotations of the stock exchange, or by capitalizing the net earnings at the prevailing rate of interest.

This method of getting at the kernel of the question is not favored by the advocates of valuation. Rate making, not taxation, is their aim, and they expect to show that a large part of the selling value of railway securities consists of franchises bestowed by public authority—not that these franchises were so very valuable when they were granted but that they have become so in the course of time by the growth of population and the general social movement. They contend that that portion of the income of railways which is attributable to franchises should inure to the benefit of the public, and only that part, which may be considered a fair return on the capital invested, go to the stockholders in the shape of dividends.

If this is a just conception, what are we to say of other "unearned increments?" There is scarcely any kind of productive property which has not been advanced in value by the growth of population and joint efforts of the whole community. This is true of landed property, whether agricultural, or commercial, or residential. It is true also of capital invested in manufacturing industry. What would the Carnegie Steel Works be worth if the population of the United States had not increased during the past fifty years? Shall we make fish of one and flesh of the other? Shall we compute the amount of money invested in agricultural land at a dollar and a quarter per acre, plus the capital invested in stock and implements, and confiscate the balance as an unearned increment due to society, according to the theory of the Single Tax? Is not something due to the sagacity of the *entrepreneur* of every successful venture in railway construction and operation, as well as in other productive labor? How is the value of a franchise to be separated from that of the mental capacity and energy of the man in whose hands it has been placed?

These and cognate questions are put to the advocates of railway valuation by Professor Laughlin with searching force. They are questions, too, which must be answered before any scheme for regulating railway rates by first cost of the property, or by present cost of reproducing it, can have any standing in the

forum of reason. Most of the railways now flourishing as systems, such as the early transcontinental lines, the Illinois Central, the St. Paul, the Chicago and Northwestern, the Wabash, and the Erie, have passed through bankruptcy two or three times in the endeavor to extract some value from their franchises. Some of them are now working under new franchises, the original ones having lapsed by the failure of their first holders. How are we to average the early failures and the later successes so as to obtain a fair valuation? The author does not fail to see the need of regulating the issuance of securities which may be put afloat by railway companies, but he considers physical valuation an awkward remedy for over-capitalization, and prefers the policy of requiring the issue of new securities to be approved by a Board of Public Utilities, as is now the case in New York.

As a subject of immediate concern the Guaranty of Bank Deposits may be noted as coming next in order to the valuation of railways. Professor Laughlin has given us two chapters, dealing with the question in the abstract rather than with concrete examples. Apparently these chapters were written by way of warning and published as magazine articles before any practical results were available.

Five states have, since December, 1907, passed laws for the guaranty of bank deposits: Oklahoma, Kansas, Nebraska, South Dakota, and Texas. The laws of Oklahoma and of Nebraska are compulsory upon all banks incorporated under state authority. That of Nebraska applies to private bankers as well as to incorporated banks. That of Texas is compulsory, but it does not require a guaranty fund for the payment of deposits; a guaranty bond may be executed instead. Four states allow national banks to participate, but the federal authorities have ruled that such participation would be unlawful in any event.

There has been abundant litigation growing out of the deposit guaranty laws of the five states and there has been a considerable batch of experience of their practical workings which would have enriched the book and confirmed the writer's arguments if the facts had been available before the work went into the printer's hands. The failure of the Columbia Bank and Trust Co., of Oklahoma, with deposits of $2,900,000, which took place in September, 1909, proved that either the law, or its administration, was grievously at fault. The deposits could not be paid immediately, even with the whole amount of the guaranty fund, plus all of the bank's resources. This failure and other facts brought together in Mr. Thornton Cooke's papers on "The Insurance of Bank Deposits in the West,"[1] have led that writer to the conclusion that "Oklahoma must abandon the effort to pay depositors as soon as a bank is closed." In other words the creditors of a failed bank under the deposit guaranty law of that state must wait for their money, or sell their claims for what they will bring, as creditors do, in like case, under the national banking system.

Since the failure, in part, of the Oklahoma experiment, the scheme of deposit insurance by private surety companies has acquired some importance, and Mr. Cooke thinks that it may prove the ultimate solution of the problem. To the reviewer it seems more probable that the Chicago experiment of mutual examination of banks, which dates from the Walsh failure, will supersede both. This plan begins at the other end of the problem. It is bottomed on the

[1] *Quarterly Journal of Economics*, November, 1909, and February, 1910.

maxim that prevention is better than cure. It aims to detect the beginnings of rottenness in the assets of banks which are embraced in any clearing house, and put a stop to the same before it becomes dangerous. This can be done. It is only a question of the frequency and thoroughness of examinations. The wonder is that this simple remedy was not thought of sooner. Its importance cannot be overestimated.

In juxtaposition to the guaranty of deposits the broader question of Government vs. Bank Issues is treated. This is not at present a subject of popular controversy. In fact it is rather musty, but it has not lost its importance by being blanketed by other problems. If the greenback is no longer a theme of active controversy it should be an easy task now to put it out of its misery. The difficulty heretofore has been threefold: (1) The greenback has been associated in the public mind with the civil war and the saving of the Union. In the words of a senator from Illinois, it was "battle scarred and blood stained," and it was easy to rally defenders whenever any attempt was made to retire it along with the flags and other discarded paraphernalia of the sixties. (2) It was commonly believed that "contraction of the currency" would result from redemption of the greenbacks, even though a gold eagle should take the place of every ten dollars of notes retired. (3) The belief prevailed that, by keeping the greenbacks outstanding, the government made a saving of interest measured by the difference between the amount of notes outstanding and the gold reserve kept for their redemption. Not even the costly experience of the panic of 1893 wholly dispelled this illusion. Not until the act of March 14, 1900 was passed did Congress pluck up courage to turn the greenbacks in the direction of ultimate extinction. This was done in rather occult phrases providing that United States notes once redeemed by the Treasury should not be reissued except in exchange for gold. The author shows that the amount of bonded debt created by the government expressly for the purposes of greenback redemption exceeds the total amount of the greenbacks themselves and that the annual interest on that debt as originally issued is upwards of $15,000,000.

It is perhaps safe to say that public opinion is no longer in a state of delirium regarding the battle-scarred and blood-stained legal-tender note, and that a measure to extinguish it by the gold cure would not arouse much opposition. This is one of the things to be considered by the National Monetary Commission. When it comes up for general discussion this book will be found to contain in simple language all the arguments needed to enforce a policy which ought to have been carried into effect forty years ago, and which Congress adopted in April, 1866, but mistakenly abandoned two years later.

Chapters i, iii, and iv deal with socialism and kindred questions. It is impossible to speak too highly of Professor Laughlin's treatment of this subject, whether we consider the spirit in which he approaches it or the clarity of vision with which he presents it. No one can doubt that the author's sympathy with the struggling masses of humanity is sincere. Everyone must admit that his conclusions are based upon fair arguments couched in respectful language. It would be impossible to summarize these arguments without impairing their force, since they are already couched in the irreducible minimum of words. We may, however, quote his conclusion (p. 54) as a sample of his moderation of tone and clearness of expression: "Just as soon as the acts of any person

infringe upon the rights of others the state should interfere in the interest of equality and justice. Beyond this limit individual activity should be left untrammeled and encouraged to believe that it will receive all the rewards due to its own initiative. It is unquestionable that the continued imposition upon others of power and direction from outside inevitably tends to reduce the creative strength of the individual and to bring about a deterioration of the stock. The only way by which the best can be got out of the race is by stimulating rather than repressing every possible kind of new energy and by offering all possible rewards for its exercise. It is hardly conceivable that any one set of government officials should be so omniscient as to know just how to stimulate every other human being by processes of legislation."

The chapter on "Political Economy and Christianity" embraces certain disputes which were long since decided in the forum of reason but which are not wholly settled in popular estimation. Among these is the controversy about the taking of interest for the use of money. Professor Laughlin seeks to show, and does show abundantly, that to take interest for the use of money is not in conflict with the doctrines of Christianity; but he does not show how it came to be so considered. Let us glance at the chapter of absurdities which antedated our usury laws. In the Old Testament the chosen people were prohibited from making gains *inter se* by the loan of money, or of any kind of property, but they were allowed to make such gains from strangers. This code was interpreted by the early church as a command to Christians not to practice usury but to tolerate it among the Jews.

In one way and another usury became an Israelitish monopoly during the Middle Ages. Although all the old hallucinations on the subject have since passed away, there still remain laws on the statute books of most of our states prohibiting the taking of more than a prescribed rate of interest for loans. These are called usury laws and the word usury has undergone a change of meaning. It now means not as originally the taking of any interest for loans, but the taking of a higher rate than the law fixes as a maximum. But there are some variations in the system. If the borrower is very needy and has a watch or some other chattel that he can put in pawn, the lender may exact any rate of interest that he chooses. In New York nobody can lawfully receive more than 6 per cent. for a loan of $5,000 or upwards payable at a fixed time, but for such a loan payable on demand and secured by collateral he may exact any rate that he and the borrower can agree upon. Nine states in the Union have no usury law; that is, the law in those states treats the hire of money in the same way as the hire of a house or of a horse. In nine other states the pretense of a usury law is maintained, but the penalty for violating it is only nominal, such as a forfeiture of the excess of interest, if the lender is prosecuted and convicted. Twenty-seven states are still candidates for outer darkness.

In dealing with the chapter on "Large Fortunes" (a very live subject just now), the reviewer is again baffled by the excellence of the author's treatment of the subject, which leaves no room for further simplification. This is the embarrassment of saying ditto to Mr. Burke. It suggests the bringing of this critique to an end.

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